

ACCOUNTANCY EXAMINING BOARD[193A]

Adopted and Filed Emergency

Pursuant to the authority of Iowa Code section 542.4, the Accountancy Examining Board hereby amends Chapter 1, “Definitions,” Iowa Administrative Code.

As part of the Auditing Standards Board’s Clarity Project, guidance on the examination of financial controls at a service organization previously contained in Statement on Auditing Standard (SAS) No. 70 has been replaced by Statement on Standards for Attestation Engagements (SSAE) No. 16. SSAE No. 16 was released in April 2010 and is effective for service auditors’ reports for periods ending on or after June 15, 2011. The Auditing Standards Board has characterized the change as a carefully considered step in reorganizing standards for clarity and convergence with international standards and utility.

In Iowa, this change has the unintended effect of reclassifying service audits (of such entities as investment advisors and data centers) from “attest” services that must be performed by a certified public accountant (CPA) within a CPA firm to nonattest services that may be performed by anyone. Service audits are crucial services and should be performed by licensed professionals guided by the highest standards of professional ethics and competence. Public protection could be substantially weakened in Iowa if the Board does not take steps to ensure that service audits, including the reporting on internal controls of service organizations, continue to be treated as attest services.

The unintended effect will occur in Iowa based on the wording of Iowa Code section 542.3(1)“a”(1) and (3). Currently, service audits are completed in accordance with SAS No. 70, as provided in Iowa Code section 542.3(1)“a”(1). The Auditing Standards Board change will move service audits so that they will be completed in accordance with SSAE No. 16, which is the standard applicable in Iowa Code section 542.3(1)“a”(3). Iowa Code section 542.3(1)“a”(3), however, refers to “prospective” financial information. Service audits on the internal controls of service organizations focus on existing and prior information, not “prospective” information. Now that this issue has been brought to the Board’s attention, the Board may take steps to address the issue. The Board accordingly views this emergency rule making as a temporary measure to ensure the public is protected. In the longer term, the Board may pursue legislation to ensure Iowa CPAs and service organizations are subject to the same standards as will be applicable across the nation.

Pursuant to Iowa Code section 17A.4(3), the Accountancy Examining Board finds that notice and public participation are unnecessary because this change has the unintended effect of lessening public protection and endangering mobility by omitting certain important services related to auditing from the definition of “attest” as defined by Iowa law.

Pursuant to Iowa Code section 17A.5(2)“b”(2), the Accountancy Examining Board further finds that the clarification provided by this amendment confers a benefit and that the normal effective date of this amendment, 35 days after publication, should be waived and the amendment made effective June 1, 2011. As the changes are effective for service auditors’ reports for periods ending on or after June 15, 2011, it is necessary that this amendment be effective prior to that date.

This amendment is also published herein under Notice of Intended Action as **ARC 9484B** to allow for public comment.

After analysis and review of this rule making, no impact on jobs has been found.

This amendment is intended to implement Iowa Code chapters 17A, 272C, 542, and 546.

This amendment will become effective June 1, 2011.

The following amendment is adopted.

Amend rule **193A—1.1(542)**, definition of “Attest,” as follows:

“*Attest*” or “*attest service*” means providing any of the following services:

1. An audit or other engagement to be performed in accordance with the statements on auditing standards.
2. A review of a financial statement to be performed in accordance with the statements on standards for accounting and review services.

3. An examination of prospective financial information to be performed in accordance with the statements on standards for attestation engagements.

4. Any engagement to be performed in accordance with the auditing standards of the PCAOB.

5. Any audit or other engagement regarding service organizations and service audits that as of April 7, 2011, would be performed in accordance with the statement on auditing standards and, in particular, SAS No. 70, shall continue to be performed in accordance with the statements on auditing standards in effect on April 7, 2011, and shall not be guided by the statements on standards for attestation engagements and in particular SSAE No. 16.

The standards specified in the definition of “attest” are those standards adopted by the board, by rule, by reference to the standards developed for general application by the AICPA, the PCAOB, or other recognized national accountancy organization.

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EDITOR’S NOTE: For replacement pages for IAC, see IAC Supplement 5/4/11.